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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
June 24 2005 ISSUE

¶1. Summary. Each week, AmEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Spark of Hope for Stalled U.S.-SACU Free Trade Talks;
- Current Account Deficit Narrows, Inflows Plunge;
- Wolfowitz Urges SA Business to Play Lead Role in Africa;
- Barclays Given More Time to Seal the ABSA Deal;
- Competition Commission to Probe How Banks Justify High Fees;
- JSE Wants Companies with SA Assets to 'Come Home';
- Red Tape Curbs Growth in Key Sectors; and
- Building Plans and Completions on the Rise.

End Summary.

Spark of Hope for Stalled U.S.-SACU Free Trade Talks

¶2. South Africa, along with its Southern African Customs Union (SACU) partners, and the United States have finally agreed to meet on July 1 in Geneva to rescue free-trade talks that ran aground a year ago. Negotiators on both sides have been unable to agree to a meeting for the past six months. However, the Geneva meeting also does not mark the restart of negotiations. South Africa's chief negotiator, Xavier Carim, said it would be an exploratory meeting to find a way forward. South Africa's acting Trade and Industry Director-General, Tshediso Matona, and Deputy U.S. Trade Representative Josette Shiner are expected to attend the meeting. Business in South Africa hopes that the free-trade agreement between SACU and the United States will permanently lock-in the temporary duty-free access that South African exporters enjoy in the U.S. market under the African Growth and Opportunity Act (AGOA). A South African trade commentator said the U.S. had a free trade "template" that it applied in most of its free trade negotiations with various countries and regions. He said SACU, whose member countries were in various stages of development, did not fit the template and they expected the United States to be more flexible. Source: Business Day, June 22.

¶3. Comment: This announcement comes on the heels of the June 1 Bush-Mbeki meeting in Washington and Tom Donohue's (President and CEO of the U.S. Chamber of Commerce) call for South Africa's government to speed up the signing of a free trade agreement with the United States, saying this would signal that South Africa was serious about attracting foreign investment. End Comment.

Current Account Deficit Narrows, Inflows Plunge

¶4. South Africa's current account deficit narrowed slightly in the first quarter of 2005 but capital inflows fell sharply, raising the prospect of further pressure on the rand that could hurt the inflation outlook. The plunge in capital inflows comes against the backdrop of recent rand weakness and a surge in oil prices, some of the factors cited by the Reserve Bank as risks to the inflation outlook when it left interest rates unchanged early in June. Analysts said foreigners appeared to be scaling down portfolio investment in response to lower domestic interest rates. In its June quarterly bulletin, which painted a mixed picture, the Reserve Bank said the surplus on the financial account fell by more than half to R11.7 billion ($1.8 billion) in the first quarter from R31.4 billion ($4.8 billion) in the last three months of 2004. Capital inflows are financing the deficit on the current account deficit which narrowed to R54.5 billion ($8.4 billion) at 3.8% of gross domestic product (GDP) in the first quarter of 2005. The shortfall on the current account was R57.3 billion ($8.8 billion) or 4% in the fourth quarter of 2004--its biggest ratio in 22 years. Analysts are concerned about the drop in capital inflows, largely the result of lower interest rates making South African assets less attractive to some investors. The rand, which has depreciated about 17% so far in 2005 against the dollar, was put under pressure by dollar

strength and a narrowing interest rate differential with the United States. CPIX (inflation less mortgage costs) inflation, targeted by the bank for monetary policy, has been inside the target range of 3% to 6% for 20 consecutive months. It rose by an annual rate of 3.8% in April from 3.6% in March. In a positive development, the Reserve Bank said foreign direct investment (FDI) into the country swung to an inflow of R1.3 billion ($200 million) in the first three months of 2005 from an outflow of R5 billion ($800 million) in the fourth quarter of 2004. First quarter 2005 GDP growth slowed slightly to 3.5%, down from 4% in the last quarter of 2004, due to a decrease in household and government spending. GDP forecasts for 2005 are still predicting annual growth between 3.5% and 4%. Sources: Business Day, June 23; Nedbank, Investec, and Standard Bank Economic Research, June 23.

Wolfowitz Urges SA Business to Play Lead Role in Africa
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¶5. World Bank President Paul Wolfowitz has come out strongly in support of South Africa playing a leading economic role in Africa, saying South African business and the bank should form a partnership to boost development in the region. Wolfowitz said local firms were already uniquely positioned for public-private infrastructure projects in the region. According to research analysts Liquid Africa, South Africa is now the largest source of foreign direct investment in Africa, far outpacing the U.S., U.K., and France. Wolfowitz said if South Africa and the Bank "partner together we can probably increase our respective effectiveness and we have a huge interest in seeing that this part of the world makes progress." President Thabo Mbeki is also keen to align South Africa's economic needs with those of the rest of the continent and has been at the forefront of efforts to boost trade links across Africa. Wolfowitz met Mbeki in South Africa on June 18. Wolfowitz also had lunch with a number of prominent business figures, including Lazarus Zim, CEO of Anglo American in South Africa, Safika group chairman Saki Macozoma, AngloGold CEO Bobby Godsell and Transnet CEO Maria Ramos. Source: Business Day, June 21.

¶6. Comment: Prior to the Wolfowitz visit, Finance Minister Trevor Manuel made a public plea for African National Congress (ANC) allies to rethink their opinions on World Bank loans. The possibility of large-scale borrowing by South Africa was raised in an ANC discussion document on economic policy released last month. The paper has become a source of controversy between the ANC and the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) because its recommendation for an easing of labor laws proposes a massive infrastructure investment program, which would partly be financed by borrowing from the World Bank. COSATU and the SACP warn against agreeing to World Bank political conditions in exchange for loans. Since 1994, South Africa has only taken two small World Bank loans. End Comment.

Barclays Given More Time to Seal the ABSA Deal
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¶7. U.K. bank Barclays has been granted an additional two weeks to buy up to 60% of South African bank ABSA. On June 21, the high court approved Barclays' request to postpone sanction of the scheme of arrangement to buy 32% of ABSA's shares at R82.50 ($13) each. ABSA shareholders voted 90% in favor of the offer on June 13. However, the scheme hinges on Barclays' success in buying a further 28% of ABSA under a voluntary offer. The U.K. bank has now extended this offer to July 22. As of June 21, Barclays had commitments from shareholders for 51.1% of ABSA. Barclays' spokeswoman Liz Hooper said the bank was confident it would secure the shares it required. She said Barclays had extended the offer to give shareholders more time to tender shares following ABSA's R2 ($0.31) dividend payment. Barclays hopes to secure up to 60% of ABSA's shares, but has set a floor of 56.5% to ensure it retains control of the bank once ABSA's Black Economic Empowerment partner, the Batho Bonke consortium, exercises options to buy 10% in the bank. Source: Business Day, June 14 and 22.

Competition Commission to Probe How Banks Justify High Fees
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¶8. The high fees that South African banks charge clients are back in the spotlight, with the Competition Commission preparing the groundwork for a possible investigation of the competitiveness of bank charges. Last week, the Commission confirmed it was tendering for a private company to conduct a scoping study into the national payments system and bank charges. The scoping study, which could lead to a formal investigation, could help make the payments system more transparent and show consumers how banks arrive at the charges they impose on customers. The Competition in Banking Report conducted on behalf of the National Treasury and the Reserve Bank last year, found that disclosure of the

cost of banking services was weak, that the control of the essential infrastructure of the payments system was in the hands of the four large banks. The result was that low- and middle- income earners faced exceptionally high bank charges. One industry source says that banks have come to rely too heavily on the income they earn from fees rather than lending. Last year, most banks saw significantly larger increases in noninterest than in interest income. Ross Jenvey at Andisa Securities says falling interest rates have put pressure on banks' interest margins, explaining the slower growth in interest income. He says the strong rise in noninterest income is due to growth in volumes rather than price increases, with Standard Bank and FirstRand Bank growing banking fees and commissions about 24% last year. Source: Business Day, June 14.

¶9. Comment: The U.S. Agency for International Development (USAID)/South Africa funded the Competition in Banking Report. End Comment.

JSE Wants Companies with SA Assets to 'Come Home'
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¶10. A top JSE Securities Exchange SA official lashed out at companies with South African assets that seek to list on bourses in cities such as London and Toronto, rather than on the local exchange. The frustration, expressed yesterday by JSE business development manager Noah Greenhill, comes more than a year after Finance Minister Trevor Manuel changed the law to allow foreign firms to launch a secondary listing on the JSE. But this has yielded minimal results--to date only Australia's Aquarius Platinum has listed on the JSE. Greenhill asked yesterday why foreign companies doing business in South Africa would not choose to raise capital through the JSE, and would instead list their assets overseas. Greenhill's comments came during a function at which Platinum Group Metals SA, which mines platinum near Rustenburg, said it had been upgraded to the main board of Canada's Toronto Stock Exchange due to the strength of its local platinum assets. Platinum Group Metals is based in Canada even though its main platinum assets are South African. It is not listed on the JSE, but is considering a secondary listing on the JSE. Greenhill said that it was time for the company to "come home (as it) is an African company, and a South African company." He said a number of parties bore the responsibility to change this perception and draw more companies to South Africa. But despite the lag in getting companies to list on the local bourse, Greenhill said he expected "about 10" companies to list on the JSE before the end of the year "if all goes according to plan." He said these companies were a combination of African and overseas outfits, with turnover (i.e., revenue) ranging from R30 million ($4.6 million) to "many billions." These included companies across a spectrum of sectors, but predominantly from the mining industry. Source: Business Day, June 14.

Red Tape Curbs Growth in Key Sectors

¶11. Companies operating in four key sectors of South Africa's economy--automotive, clothing and textiles, pharmaceuticals and tourism--are burdened with significantly more regulatory red tape than others, a study has found. Tourism emerged as the most regulated sector, with compliance costs as a percentage of turnover (i.e., revenue) higher than in any of the other sectors surveyed. Tourism is widely considered the most important sector of the domestic economy in terms of its potential to spur economic growth and job creation, so this finding will be of great concern to government. The survey results are also expected to bolster the lobby within the African National Congress (ANC) that has suggested deregulating the South African labor market to encourage job creation. The issue will be hotly debated at the ANC's policy conference later this month. The study, commissioned by Small Business Project, a nonprofit research and development organization, and carried out by Lawrence Schlemmer's MarkData group, covered a representative sample of 1,800 businesses from the informal, small and medium-size enterprises and corporate sectors. Source: Business Day, June 21.

Building Plans and Completions on the Rise

¶12. The real value of building plans completed rose by 48.8% year-on-year (y/y) in April 2005 to 1.421 billion (all figures in 2000 rands) after rising by 31.1% y/y to R1.453 billion in March 2005, according to Statistics South Africa. The real value of approved building plans mirrored the building plan completion trend by rising 80.6% y/y in April 2005 to R3.5 billion compared with a 28.4% y/y increase in March 2005 to R3.3 billion. This brought the increase for the first four months to 33.3% y/y, which is almost the same as last year's 33.0% increase after only an 11.3% rise in
¶2003. South Africa is currently experiencing a housing boom

with South African house prices increasing by 32.2% in 2004 compared with 21.4% y/y in 2003 and 15.2% y/y in 2002 according to South African commercial bank ABSA's (ASA) monthly House Price Index (HPI). Source: I-Net Bridge, June ¶17.

FRAZER